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19 September 1962

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The Honorable William C. Foster
United States Arms Control and Disarmament Agency
Washington, D. C.

Dear Bill:

Thank you for your letter of 31 August to Mr. McCone, and for the attached report of the Inspection Study Group. Mr. McCone is away for the present but I will call this material to his attention when he returns.

I am pleased to know that the work of the Study Group has proved to be of value to the Arms Control and Disarmament Agency and that CIA personnel made a substantial contribution. Your kind remarks about the CIA contributors are very much appreciated.

Faithfully yours,

Marshall S. Carter
Lieutenant General, USA
Acting Director

Concur:

[Redacted Signature]
Deputy Director (Intelligence)

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Y. A. ...
Mr. John J. McCloy
Chairman, General Advisory Committee
US Arms Control and Disarmament Agency

Dear Mr. McCloy:

During the discussion arising from the CIA briefing of your Committee yesterday, we agreed to check on estimated Soviet military expenditures as a percentage of Gross National Product.

In its most recent national estimate on this subject, completed in January 1962, the US Intelligence Board concluded that Soviet military expenditures in 1962 would probably continue to comprise on the order of 10 percent GNP. The estimate pointed out that the Russians were increasing their military effort, but that GNP was also expanding.

A new estimate on this subject is in the early stages of preparation, and CIA has developed some preliminary figures covering the past five years. These show an increase in estimated Soviet military expenditures from about 13½ billion rubles in 1958 to about 16 billions in 1962. At the same time, GNP is estimated to have expanded from about 136 billion rubles in 1958 to about 165 billions in 1962. As best we can now determine, therefore, the military has been absorbing 9-10 percent of GNP.

I would like to suggest two factors which may account for the higher percentages some members of the Committee remembered.

First, in 1957 the US Intelligence Board did in fact estimate Soviet military expenditures at about 15 percent of GNP. This estimate was subsequently reduced when we concluded that certain Soviet programs for missiles, aircraft, and other items were not as large in 1957 as we had thought at that time.

Second, it was once our practice to compare the US and Soviet defense efforts in dollars. For this purpose, we estimated what Soviet military expenditures would have been if they had been incurred in the US. This dollar valuation always worked out to a higher percentage of Soviet GNP (similarly expressed in dollars) than did a

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John J. McCloy

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ruble valuation, because military goods purchased in the USSR are less expensive relative to civilian goods than in the US, and because average US levels of pay and subsistence for military personnel are much higher. Our 1957 estimate, for example, contained comparisons based on dollar valuations, from which one could infer that Soviet military expenditures were equivalent to 20-25 percent of Soviet GNP. On the advice of our economists, we no longer use dollar comparisons in national estimates.

I want to emphasize again that in our judgment, percentage of GNP does not tell the whole story. The Soviet economy is under considerable strain to meet all the demands which have been placed on it. The military effort is absorbing substantial quantities of those types of industrial output, manpower, and scientific resources which Khrushchev would find extremely useful in pursuing his plans for general economic growth.

It was an honor and a pleasure to meet with your Committee.

Faithfully yours,

[[Signed]] Marshall S. Carter

Marshall S. Carter
Lieutenant General, USA
Acting Director

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